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## THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

12 April 1982

National Intelligence Council

MEMORANDUM FOR: Lawrence J. Brady  
Assistant Secretary for Trade  
Administration  
Department of Commerce

FROM: Maurice C. Ernst  
National Intelligence Officer for Economics

SUBJECT: Cost Estimates of Siberian Pipeline

REFERENCE: Your memorandum, same subject, dated 19 March 1982

1. This is a response to your memorandum of 19 March to Henry Rowen in which you raised some additional questions on the Siberian pipeline.

2. Western bankers do not appear concerned about their prospective exposure to the USSR resulting from financing the Yamal pipeline. First, the bulk of the Western credits, including some 85 percent of the equipment and probably a substantial part of the pipe, will be covered by government guarantees, so that the risk to the banks is fairly small. Second, the project would be self-liquidating over a relatively short period (i.e., 4-5 years) at currently anticipated sale volumes and prices, although the loan repayment period is eight years. It would still be very attractive to Moscow if the stream of earnings were less.

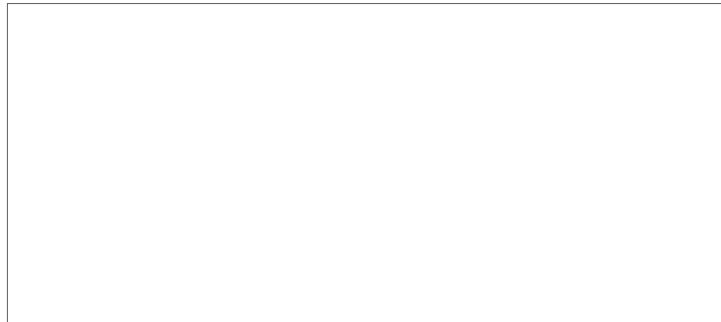
3. We have seen no cost estimates for the pipeline project in excess of \$25 billion. A cost estimate of \$25 billion was based on an Alaskan pipeline analog, which was probably too high. We currently estimate the costs of Western equipment and pipe (including finance charges) at \$10 billion. The additional Soviet domestic costs of construction are unknown but would probably be less in dollar terms than the pipe and equipment costs. The labor costs of the pipeline would be less than a similar undertaking in the West because Soviet wage rates are relatively low. Despite the growing shortage of new entrants into the labor force the Soviets should have little trouble fielding enough manpower for the pipeline. Major construction programs in the past (e.g., the BAM railroad) have made use of a wide variety of unskilled and semi-skilled labor from the Komsomol and military construction troops, as well as contingents from East European countries. Although the Soviets deny the use of prison

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labor, we believe that penal labor without confinement has been employed in the past and could be used again.



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